

Message Text

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PAGE 01 JAKART 12093 150842Z

46

ACTION EA-09

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /098 W

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R 150810Z SEP 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 6727

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 12093

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: NEXT ROUND ON PRODUCTION-SHARING CONTRACTS

1. DURING COURSE OF CONVERSATION WITH MINES MINISTER SADLI
SEPTEMBER 14, I INQUIRED ABOUT LIKELY OUTCOME OF OCTOBER
DISCUSSIONS WITH PRODUCTION-SHARING OIL COMPANIES. SADLI
SAID GOI WOULD ENTER INTO TALKS, PURPOSE OF WHICH WAS TO
FINALIZE PRODUCTION-SHARING CONTRACTS FOR 1977, WITH OPEN
MIND, WILLING TO LISTEN TO COMPANIES' PROBLEMS. HE GAVE
IMPRESSION, HOWEVER, THAT GOI DID NOT EXPECT ANY SIGNIFICANT
CHANGES IN JUST-CONCLUDED FINANCIAL TERMS NOR DID HE FEEL
GOVERNMENT WOULD MAKE ANY MAJOR "CONCESSIONS" TO CONTRACTORS
IN THIS ROUND OF TALKS. HE DID INDICATE, HOWEVER, THAT IF
COMPANY HAD "HARDSHIP" PROBLEM WHICH IT COULD DOCUMENT, GOI
WOULD BE PREPARED DISCUSS POSSIBLE SOLUTION.

2. MINISTER DID CONFIRM THAT GOVERNMENT WOULD ALLOW
COMPANIES TO EXPENSE BORROWING COSTS ON MONEY EAR-
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PAGE 02 JAKART 12093 150842Z

MARKED FOR FUTURE EXPLORATION ACTIVITIES. WE ALSO

DISCUSSED GOVERNMENT'S CURRENT DEPRECIATION SCHEDULE AND CLASSIFICATION OF COMPANIES INTO TWO GROUPS. SADLI DEMURRED ON POSSIBILITY THAT CONTRACTORS MIGHT BE LUMPED INTO ONE GROUP, SAY ON FIVE OR SEVEN YEAR BASIS. HE INDICATED, HOWEVER, THAT AS PRACTICAL MATTER, THIS IS WHAT IS HAPPENING ANYWAY. FOR 1977, ONLY TREND AND POSSIBLY JAPEX MIGHT REMAIN IN GROUP TWO CATEGORY. TOTAL, WHICH WOULD EXPERIENCE ACCELERATED PRODUCTION (AND HENCE ACCELERATED DEPLETION) IN 1977 WILL PROBABLY BE RECLASSIFIED INTO GROUP ONE. (COMMENT: BOTH JAPEX AND TREND HAVE INDICATED THEY WILL RESUBMIT NEW RESERVES FIGURES IN SUPPORT OF RECLASSIFICATION. END COMMENT.)

3. WE ALSO DISCUSSED IRS PROBLEM IN CONTEXT CONTRACT REVISIONS. SADLI SAID RECENT SENATE BILL WHICH GRANTS EXTRA YEAR TO COMPANIES WOULD GIVE GOI EXTRA BREATHING SPELL TO WORK OUT DETAILS ON CONTRACTS. HE INDICATED GOI IN "CHICKEN AND EGG" SITUATION REGARDING IRS ACCEPTANCE OF REVISED PRODUCTION-SHARING CONTRACTS. MINISTER EXPLAINED THAT IRS WANTED ACTUAL NEW CONTRACT TO RULE ON WHEREAS GOI WANTED ADVANCE IRS RULING BEFORE REVISED CONTRACT IMPLEMENTED WITH ANY COMPANY. HE MENTIONED GOVERNMENT HAD BEEN WORKING ON PREPARATION OF MEDEL CONTRACT, INCLUDING DEFINITION OF WHAT IS ROYALTY, WHAT IS ECONOMIC INTEREST, ETC. IN EFFORT PREPARE FINAL CONTRACT.

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